



Know the Difference

Multi-level Marketing Firms

VS.

Pyramid Schemes

Multi-level Marketing Firms

Multi-level marketing firms sell goods or services through independent agents. The compensation structure of these firms rewards participants who recruit others to participate in the sales plan or operation by giving them a portion of the sales commission generated by the recruited individual.

Pyramid Schemes

Multi-level marketing firms are legitimate businesses, but pyramid schemes are illegal in Montana. The Securities Department investigates and takes action against them. Unlike multi-level marketing companies, pyramid schemes are fraudulent because no goods or services are sold. Compensation is derived primarily from the fees paid by new recruits to the scheme. Participants recruit others to the plan to make money. As participants join, additional people must be recruited so that current participants can be paid. The pyramid eventually collapses because participants exhaust the pool of people available and willing to join.

In a typical pyramid scheme, an acquaintance offers an invitation to attend a recruitment meeting to learn how to make a great deal of money. At his meeting, a very enthusiastic presenter will talk about how the usual methods of making money don't work. Fancy charts and numbers show that this program will make the participant wealthy in a short period of time. The recruit is asked to "invest" or "buy into" the program, which can cost from hundreds to thousands of dollars.

The program may purport to sell products or investments, but its primary method of compensation requires continued recruitment of others. These schemes are also known as "gifting programs," in which participants at the top of the pyramid receive "gifts" from new participants. Participants in the program are urged to be discreet, use first names only and spend the money they receive cautiously. Be wary of a program that encourages secrecy.

**Check all offers with the State Auditor's Office
Securities Department at (406) 444-2040 or 1-800-332-6148.**

See how a pyramid scheme eventually will collapse on the back of this page.

Why Pyramids Collapse

Pyramids eventually collapse because it is impossible to recruit the number of people required to support the pyramid. A pyramid scheme that requires participants to recruit eight new people will require the participation of more than one million people by the eighth level and more than 15 million people by the ninth level. There aren't even one million people in Montana.

First level	1
Second level	8
Third level	64
Fourth level	512
Fifth level	4,096
Sixth level	32,768
Seventh level	262,144
Eighth level	2,097,152
Ninth level	16,777,216
Tenth level	134,217,728

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